

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 2008-460-WS - ORDER NO. 2009-\_\_\_\_  
JUNE \_\_\_\_, 2009

IN RE:	)	
Application of Avondale Mills, Inc. for	)	JOINT PROPOSED ORDER
Approval of a New Schedule of Rates and	)	APPROVING RATES AND CHARGES
Charges for Water and Sewer Service	)	
Provided to Customers	)	
_____	)	

**I. INTRODUCTION**

This matter comes before the Public Service Commission of South Carolina (the “Commission”) on the Application of Avondale Mills, Inc. (“Company” or “Avondale Mills”) for approval of a new schedule of rates and charges and for modification to certain terms and conditions for the provision of water and sewer services for its customers in South Carolina. Avondale Mills is a Class C water and wastewater utility providing service in Aiken County. According to Avondale Mills’ Application, water service is provided to 616 customers and wastewater service is provided to 495 customers.

This matter was initiated on December 23, 2008 when Avondale Mills filed an Application for approval of a new schedule of rates and charges for customers pursuant to S.C. Code Ann. §58-5-240 (Supp. 2008) and 26 S.C. Code Ann. Regs. 103-503 (Supp. 2008), 103-703 (Supp. 2008), 103-512.4.A (Supp. 2008) and 103-712.4.A (Supp. 2008). By its Application, the Company sought an increase in total annual water and sewer revenues of \$613,010. No parties filed Petitions to Intervene in this matter.

By letter dated January 12, 2009, the Commission's Docketing Department instructed Avondale Mills to publish a prepared Notice of Filing, on time, in a newspaper of general circulation in the area affected by Avondale Mills' Application. The Notice of Filing described the nature of the Application and advised all interested persons desiring to participate in the scheduled proceedings of the manner and time in which to file appropriate pleadings for inclusion in the proceedings as a party of record. In the same letter, the Commission also instructed Avondale Mills to notify directly, by U.S. Mail, each customer affected by the Application by mailing each customer a copy of the Notice and Filing. Avondale Mills furnished the Commission with an Affidavit of Publication demonstrating that the Notice of Filing had been duly published in a newspaper of general circulation in the area affected by Avondale Mills' Application. The Company also provided the Commission with a letter in which Avondale Mills certified that it had complied with the instruction of the Commission's Docketing department to mail a copy of the Notice of Filing to all customers affected by the Application. Both the public and Commission hearings were rescheduled in this case on more than one occasion. The Company provided proof of customer notification to the Commission.

By letter dated February 19, 2009, the Office of Regulatory Staff ("ORS") requested a night hearing in Aiken County.<sup>1</sup> On March 5, 2009, the Commission issued Order No. 2009-136 granting a request for a local public hearing and ordering Commission Staff to schedule a public hearing in Aiken County. After rescheduling earlier dates, the night hearing was held on May 26, 2009 at 6:00 p.m. in Graniteville, South Carolina.

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<sup>1</sup> ORS received requests for a night hearing from Representative J. Roland Smith, Representative Thomas R. Young, Senator A. Shane Massey, and members of the public.

On June 2, 2009, a hearing concerning the matters asserted in Avondale Mills' Application was held in the Commission's hearing room located at Synergy Business Park, 101 Executive Center Drive – Saluda Building, Columbia, South Carolina. The full Commission, with Chairman Elizabeth B. Fleming presiding, heard the matter of Avondale Mills' Application. Scott Elliott, Esquire represented Avondale Mills. Jeffrey Nelson, Esquire and Shealy Boland Reibold, Esquire represented ORS. Randall Dong, Esquire served as legal counsel to the Commission.

Avondale Mills presented the testimony of Jack R. Altherr, Jr., Vice Chairman, President, CEO, and CFO, and G. Stephen Felker, Jr., Vice President of Corporate Development. ORS presented the testimony of Willie J. Morgan, Program Manager for the Water and Wastewater Department, and Christina A. Stutz, Auditor.

## **II. FINDINGS OF FACT AND SUPPORTING EVIDENCE**

1. Avondale Mills provides water distribution and wastewater collection service to 616 water customers and 495 sewerage customers in the Graniteville/ Vaucluse area of Aiken County. As a public utility, its operations are subject to the jurisdiction of the Commission pursuant to S.C. Code Ann. §58-5-10 *et seq.* (Supp. 2008).

The evidence supporting this finding is contained in the Company's Application, the testimony of its witnesses Altherr and Felker and in the testimony of ORS witness Morgan.

2. We find that the appropriate test year for purposes of this proceeding is the twelve month period ending August 29, 2008.

The evidence supporting this finding is contained in the Company's Application, the testimony of its witness Altherr, and the ORS Audit Department Report sponsored by ORS





now “stand on their own,” we realize that the financial and structural survival of the system requires the drastic percentage increase in rates requested by the Company in order to provide a moderate positive operating margin.

8. We find that the proposed schedule of rates and charges contained as Exhibit A to the Company’s Application are fair and reasonable and will yield Avondale Mills an Operating Margin of 12.71%. We further find that such an operating margin should be sufficient to enable Avondale Mills to operate and maintain the present system adequately without providing excessive income or revenues at the expense of the system’s customers. This finding is in accord with the testimony of ORS witness Morgan who testified under cross-examination that ORS considers, and has consistently recommended, an operating margin of between 10% to 15% for water and wastewater utilities operating in South Carolina. The 12.71% operating margin presented in this case falls within the range recommended by ORS.

9. We further find that it is appropriate and reasonable to approve the pass through mechanism requested in Avondale Mills’ Application. As Avondale Mills purchases all of its water from the Breezy Hill Water and Sewer Company and the Valley Public Service Authority, as well as treatment services from the Aiken County Public Service Authority, it is evident, as was testified by Mr. Altherr at the hearing, that the majority of Avondale Mills’ costs are those associated with the purchase of water and sewer services from these entities. The testimony of Mr. Altherr further provided that costs from one or more of these entities normally increases each year. In order to alleviate the quandary of either “rate shock” or yearly rate cases expenses, we find it fair and reasonable to approve the pass-through mechanism as provided in the attached rate schedule, attached hereto as Attachment A.

10. The public hearing conducted by the Commission raised certain quality of service issues related to bill estimates, customer service, water quality, and compliance with the regulations of the South Carolina Department of Health and Environmental Control (DHEC). Of note, Mr. Alton Everson raised a concern regarding sewerage overflow. We find that, based on the testimony provided by Company witnesses Altherr and Felker and ORS witness Morgan, as well as documentary evidence submitted as Hearing Exhibit 2, Avondale Mills has properly responded to overflows and spills.

We further find that these issues, while of significant concern to this Commission, appear to be caused not due to lack of attention or maintenance by Avondale Mills but rather due to the age and condition of the system. We find that the Company should, and must, continue its efforts to identify lost water, system leaks and spills, and must continue to use its best efforts to resolve water pressure issues and valve/hydrant maintenance issues which have been raised by its customers and DHEC. However, the Commission does not believe that our refusal or rejection of the Company's proposed rate increase will resolve, and in fact may aggravate, maintenance and service issues. The Commission finds that it would be in the best interests of both the Company and its customers to allow Avondale Mills to earn a reasonable operating margin to provide it with the means to maintain its aging water and wastewater system properly and to comply with DHEC and Commission standards.

11. We find that it is in the public interest to require performance bonds in the amount of \$540,000 for the Company. Bond amounts must range from an amount not less than \$100,000 and not more than \$350,000 each for water and sewer pursuant to S.C. Code Ann. Regs. 103-512.3.1 (Supp. 2008) and 103.712.3.1 (Supp. 2008). The bond amount is also set forth in S.C.

Code Ann. § 58-5-720 (Supp. 2008). ORS witness Morgan testified that the bond requirement for Avondale Mills should be increased to \$265,000 for water operations and \$275,000 for sewer operations based on expenses from the test year. Avondale witness Altherr testified that Avondale Mills accepted the bond amounts recommended by ORS. Therefore, this Commission finds that, in order to provide sufficient financial assurance to both the customer and the Commission in the event that the Company fails to provide safe and adequate service, a bond in the amount of \$540,000 is required.

### **III. CONCLUSIONS OF LAW**

Based on the Findings of Fact as contained herein and the record of the instant proceeding, the Commission makes the following Conclusions of Law.

1. We conclude that an Operating Margin methodology is appropriate to use in establishing just and reasonable rates. In accord with the testimony of ORS Witness Morgan, we conclude that a fair operating margin for the combined water and wastewater operations of Avondale Mills in South Carolina is 12.71%. This operating margin is calculated by dividing the proposed net operating income by the total operating revenues.

2. The Company's calculated operating margin for the test year ending August 29, 2008, under present rates and as adjusted in this Order, was (429.69%). This margin is based on adjusted total operating revenues of \$110,766 and adjusted total operating expenses of \$586,718, producing a net operating loss for return of (\$475,952). Under the rates and charges approved herein and detailed in Attachment A to this Order, Avondale Mills is anticipated to produce a net operating income for return of \$91,965 to yield the approved Operating Margin of 12.71%.



3. The rates and charges provided for in Attachment A to this Order are designed to be just and reasonable without undue discrimination and are also designed to meet the revenue requirements of the Company to yield the approved Operating Margin of 12.71%. The Company's requested modifications to certain terms and conditions of service in its rate schedule are not counter to the public interest and are necessary to ensure the economic viability of the Company.

4. We conclude that the Company is entitled to the implementation of a pass-through mechanism as detailed in the tariff rate sheet attached hereto as Attachment A. We conclude based on the documentary evidence presented and the testimony of ORS Witness Morgan that the appropriate bond requirement for the Company is a combined \$540,000 - \$ 265,000 for water and \$275,000 for sewer service. Avondale Mills shall post a bond or other approved instrument in this amount prior to the implementation of the rates and charges approved in this Order.

#### **IV. CONCLUSION**

The law requires that Avondale Mills be allowed to earn a reasonable rate of return for its services, and in deciding on such a rate, the Commission is constrained by the evidence before it and the applicable law. No party to this case argues that Avondale Mills' Application for a rate increase should be denied altogether. Indeed, evidence presented at the hearing revealed a rate increase is necessary to enable the Company to continue operating its aging system. The Commission considered the operating margin provided in the testimony of ORS witness Stutz, and the testimony of Altherr and Felker agree with the operating margin established. We have considered the testimony of several Avondale Mills' customers and elected officials who attended the public night hearing and expressed concern with the current service and the rates

that they could be paying. However, their testimony does not give the Commission a basis for declining Avondale Mills' Application. In *Heater Utilities, Inc. v. Public Service Commission of South Carolina*, Memorandum Op. No 95-MO-365 (S.C. S. Ct. Dec 8, 1995), the South Carolina Supreme Court reversed this Commission's decision to deny a rate increase because of "the absence of any scientific criteria" to support its decision. Consequently, while the Commission finds that the testimony of the Company's customers relevant to this proceeding, this testimony cannot form the sole basis for denying a rate increase in the absence of other objective, quantifiable evidence. This Commission was not presented with any quantifiable, objective data regarding water quality, sewage odors, or customer service which could provide the basis for denying Avondale Mills' rate increase. Indeed, none of the public witnesses objected to the idea of a rate increase, but rather to its timing or size. Furthermore, the Commission has herein adopted measures designed to address such problems, and to adequately document the Company's future service.

IT IS THEREFORE ORDERED THAT:

1. The rates and schedules in Attachment A are hereby adopted by the Commission and are Ordered to be put into effect by Avondale Mills within thirty (30) days of the issuance of this Order or in the Company's next billing cycle. The schedules shall be deemed to be filed with the Commission pursuant to S.C. Code Ann. §58-5-240 (Supp. 2008).
2. Avondale Mills is entitled to rate relief on the basis of its current operating margin of (429.69%).
3. An operating margin of 12.71% is approved for Avondale Mills.

4. Avondale Mills shall file a performance bond in the amount of \$265,000 for water and \$275,000 for sewer services and shall file such Bond prior to the implementation of new rates and charges authorized by this Order.
5. Avondale Mills shall keep its books and records in accordance with the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts.
6. Avondale Mills shall implement a pass-through mechanism as detailed in Attachment A. Avondale Mills shall comply with all notice and timing provisions as detailed in Attachment A prior to being permitted to increase, bill, or collect any or all rates and charges of any water or sewer rates subject to such pass-through. The Company shall notify this Commission and ORS in writing at least thirty (30) days prior to the implementation of new rates resulting from Avondale Mills' use of the pass-through mechanism of the Company's intent to do so and shall file a revised schedule of rates and charges with this Commission and ORS after the implementation of such rates.
7. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

ATTEST:

\_\_\_\_\_  
Elizabeth B. Fleming, Chairman

\_\_\_\_\_  
John E. Howard, Vice-Chairman

(SEAL)

**AVONDALE MILLS, INC.  
DOCKET No.: 2008-460-WS  
SCHEDULE OF RATES AND CHARGES**

**WATER**

**1. Monthly Recurring Charges**

**RESIDENTIAL & COMMERCIAL CUSTOMERS:**

<b>Base Facilities Charge</b>	<b>\$8.00</b>
<b>Commodity Charge</b>	<b>\$4.50 per 1000 Gallons</b>

**APARTMENT COMPLEX - MULTIPLE BUILDINGS SERVED BY A SINGLE  
METER:**

<b>Base Facilities Charge</b>	<b>\$50.00</b>
<b>Commodity Charge</b>	<b>\$4.50 per 1000 Gallons</b>

**IRRIGATION CUSTOMERS:**

<b>Base Facilities Charge</b>	<b>\$ 12.00</b>
<b>Commodity Charge</b>	<b>\$5.65 per 1000 Gallons</b>

**INDUSTRIAL CUSTOMERS:**

<b>Base Facilities Charge</b>	<b>\$50.00</b>
<b>Commodity Charge</b>	<b>\$4.50 per 1000 Gallons</b>

**2. Nonrecurring Charges**

**Water Tap-In Fee For New Connections**

**A. 5/8 "Meter** **\$550.00**

**B. Meter tap fees for meters larger than 5/8" will be based on a single-family equivalent (SFE) using the DHEC contributory loading criteria.**

### **3. Notification, Account Set-Up, and Reconnection Charges**

- A. Notification Fee:** A fee of five dollars (\$5.00) shall be charged each customer to whom the utility mails the notices as required by Commission Rule R. 103-535 prior to service being discontinued. This fee assesses a portion of the clerical and mailing costs of such notices to the customers creating the cost
- B. Customer Account Charge:** A one time fee of \$15.00 will be charged to defray the cost of initiating a new customer's service.
- C. Reconnection Charges:** In addition to any other charges that may be due, a reconnection fee of \$35.00 shall be due prior to the utility reconnecting service which has been disconnected for any reason set forth in Commission Rule R.103-732.5.

### **4. Late Penalty Charge**

Avondale may charge a late-payment penalty up to the maximum amount allowed by applicable South Carolina Statute and/or Public Service Commission rule.

### **5. NSF Check Charge**

Avondale may charge a NSF check charge up to the maximum amount allowed by applicable South Carolina Statute and/or Public Service Commission rule.

**6. The Utility shall give the Commission thirty days' notice of its intent to pass-through to customers charges for water service which are higher than those in effect at the time of the Commission's approval of the within rate schedule. The Utility shall provide with such notice written documentation of an increase by the provider of treatment services justifying the increase in the amount of treatment charges sought to be passed-through to affected customers. In the event that an increase in the amount of treatment charges to be passed-through to customers is found by the Commission to be so justified, the Utility will then be required to give customers advance notice before the increase in the charges for water service to be passed through may be put into effect.**

## **SEWER**

### **1. Monthly Recurring Charges**

#### **RESIDENTIAL & COMMERCIAL CUSTOMERS:**

<b>Base Facilities Charge</b>	<b>\$6.00</b>
<b>Commodity Charge</b>	<b>\$6.50 per 1000 Gallons</b>

#### **APARTMENT COMPLEX - MULTIPLE BUILDINGS SERVED BY A SINGLE METER:**

<b>Base Facilities Charge</b>	<b>\$35.00</b>
<b>Commodity Charge</b>	<b>\$6.50 per 1000 Gallons</b>

**INDUSTRIAL CUSTOMERS:**

<b>Base Facilities Charge</b>	<b>\$35.00</b>
<b>Commodity Charge</b>	<b>\$6.50 per 1000 Gallons</b>

**2. Nonrecurring Charges**

**Sewer Tap-In Fee For New Connections**

**A. 5/8" Meter** **\$550.00**

**B. Meter tap fees for meters larger than 5/8" will be based on a single-family equivalent (SFE) using the DHEC contributory loading criteria.**

**3. Notification, Account Set-Up, and Reconnection Charges**

- A. Notification Fee:** A fee of five dollars (\$5.00) shall be charged each customer to whom the utility mails the notices as required by Commission Rule R. 103-535 prior to service being discontinued. This fee assesses a portion of the clerical and mailing costs of such notices to the customers creating the cost.
- B. Customer Account Charge:** A one time fee of \$ 15.00 will be charged to defray the cost of initiating a new customer's service.
- C. Reconnection Charges:** In addition to any other charges that may be due, a reconnection fee of \$250.00 shall be due prior to the utility reconnecting service which has been disconnected for any reason set forth in Commission Rule R. 103-532.4.

**4. Late Penalty Charge**

**Avondale may charge a late-payment penalty up to the maximum amount allowed by applicable South Carolina Statute and/or Public Service Commission rule.**

**5. NSF Check Charge**

**Avondale may charge a NSF check charge up to the maximum amount allowed by applicable South Carolina Statute and/or Public Service Commission rule.**

**6. The Utility shall give the Commission thirty days notice of its intent to pass-through to customers treatment charges which are higher than those in effect at the time of the Commission's approval of the within rate schedule. The Utility shall provide with such notice written documentation of an increase by the provider of treatment services justifying the increase in the amount of treatment charges sought to be passed-through to affected customers. In the event that an increase in the amount of treatment charges to be passed-through to customers is found by the Commission to be so justified, the Utility will then be required to give customers advance notice before the increase in the treatment charges to be passed through may be put into effect.**

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION**  
**OF SOUTH CAROLINA**  
**DOCKET NO. 2008-460-WS**


IN RE:

Application of Avondale Mills, Incorporated for	)	
Approval of a New Schedule of Rates and	)	
Charges for Water and Sewerage Services	)	<b>CERTIFICATE OF</b>
Provided to Customers in Aiken County, South	)	<b>SERVICE</b>
Carolina	)	

This is to certify that I, Chrystal L. Morgan, have this date served one (1) copy of the **PROPOSED ORDER** in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

**Jack R. Altherr Jr., President**  
**Avondale Mills, Incorporated**  
**506 South Broad Street**  
**Monroe, GA, 30655**

**Scott Elliott, Esquire**  
**Elliott & Elliott, P.A.**  
**721 Olive Street**  
**Columbia, SC, 29205**

  
\_\_\_\_\_  
Chrystal L. Morgan

June 8, 2009  
Columbia, South Carolina